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# Contemporary Welfare Regimes in Baltic States: Adapting Post-Communist Conditions to Post-Modern Challenges

Anu Toots\* & Janika Bachmann

## Abstract

This article revises the conventional approach to welfare state development in the post-communist world, according to which the main challenge for the Eastern European states is to catch up with Western European welfare regimes. The article argues that adjustment to the new social risks and volatile markets is more important today than the catching-up scenario. Based on social and labour market statistics for Estonia, Latvia and Lithuania, the article analyses how the Baltic States are coping with this adjustment challenge. Adaptation to the post-modern conditions can be regarded as successful if the stability of welfare spending is accompanied by the expanding and flexible employment and by the stable or decreasing level of poverty. The findings suggest that the opportunities to increase the flexibility and equality of the labour market provided by the breakdown of the communist regime were not used. Instead, the Baltic welfare states continue to focus on protecting against the old social risks by combining neoliberal and post-communist principles. Poor performance in meeting new social risks poses a greater challenge for the post-communist welfare states than their lag in terms of gross welfare expenditure.

**Keywords:** welfare state, Baltic States, employment patterns, family policy, post-modernity

## Introduction

Transformation of the welfare states in the Central and Eastern Europe (CEE) has provoked lively academic interest in the late 1990s. The first strand of research was mainly exploratory and mapped the changes in the social policies of post-communist states. The second raised more sophisticated questions and attempted to classify the emerging welfare regimes in the framework of the well-known Esping-Andersen's (1990) models. Yet, this regime-centred approach did not address one of the main issues in contemporary welfare state research – how are post-communist countries coping with the post-modern challenges such as insecure labour markets, changing work and family patterns, and new social risks.

This article attempts to demonstrate that the Baltic States offer an important insight for understanding the contemporary issues of the welfare state development. Instead of getting deeply involved in defining the type of Baltic welfare regime, it focuses on the adaptive potential of the welfare state in the region. The aim of the article is to analyse how features of different welfare models that are evident in the current Baltic welfare states support their adjustment to the postmodern conditions. The article is divided into two parts. The first part discusses the relevance of conventional welfare regime typology for the understanding of welfare prospects in the post-communist countries. A review of previous research suggests that contemporary post-communist welfare states embody layers of different welfare models and different areas of the welfare state develop at a different pace.

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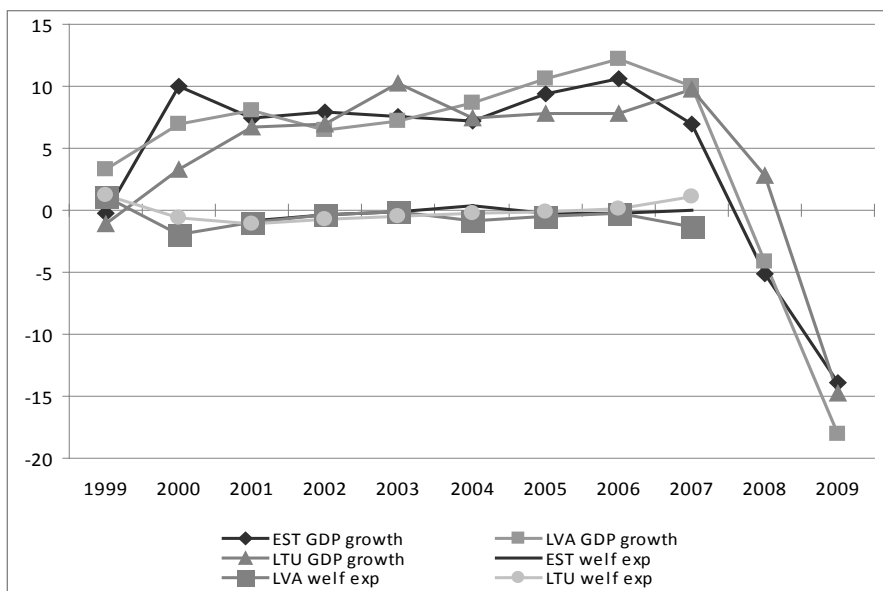
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The second part of the article elaborates this argument on the basis of empirical evidence drawn from the labour market behaviour, which is crucial in securing the efficiency of the welfare state in times of economic instability. The second part of the article is divided into three sections, the first of which analyses employment patterns by focusing on the size of the labour market and flexible work options the second section explores the impact of the new family policies on the women's labour market incentives; and the third section looks at the effects that labour market participation and social transfers have on poverty across the old and new social risks. The article ends with conclusions and discussion on the prospects for the welfare states' development in the Baltic region.

### Limitations of the regime-centred approach in exploring contemporary post-communist welfare states

An established welfare state is characterised by strong labour market institutions and social dialogue, solid industrial economy with well-regulated work relations, generous welfare spending and remarkable income redistribution. Welfare programs were initially designed to decrease the effects of market mechanism and to meet dominant social risks of the industrial society. Thus, the focus was on ex-post redistribution and the share of welfare spending in the GDP was regarded as the major variable for measuring the development of welfare states. The dominant welfare regime typology was also based on the same logic of industrial labour markets and government redistribution activities (Esping-Andersen 1990).

Application of this approach to post-communist countries clearly shows that these are lagging behind the European average. Estonia, Latvia and Lithuania spend less than half of the EU average on social welfare, and this gap is still widening. While in 2000, the Baltic countries spent on average 15,0% of their GDP on social protection, compared to 26,8% in the EU15, then in 2007 the same indicator showed 12,6% and 27,5%, respectively. Low levels of social expenditure have been one of the main arguments to allocate Baltic countries to the liberal welfare regimes.



**Figure 1.** Real GDP growth rate and social protection expenditure growth rate in Baltic States, % change on previous year .

Source: Eurostat

Contrary to some expectations (Orenstein 2008), a remarkable economic growth in the region in 2004-2006 did not contribute to the growth of the welfare budgets; nor did the EU accession in 2004 have a positive effect. Based on these indicators, one can argue that Baltic countries represent a specific case of the general welfare state retrenchment that became apparent in Western Europe in the 1980s and caused a principal revision of the previous welfare spending patterns. The key problem was that regardless of the level of welfare expenditures, the non-expanding labour markets predicted difficulties in the financing of welfare programs in the near future.

As a reflection of these social problems in the research on welfare, the engagement with regime typologies decreases in popularity, whereas the attempts to discover the mechanisms of adjustment to the era of postmodernity become central. It has been revealed that contemporary processes of the welfare state transformation do not follow a single trajectory, but rather are incoherent, multiple and possibly contradictory (Clarke 2008). Because of this incoherence, the regime logic is losing its power to explain contemporary welfare state transformations. Various policy areas within one welfare state can evolve at different paces and in different directions (Bannink and Hoogenboom 2007), which affects their capacity to respond to the retrenchment.

There is no consensus in the academia on what the key reasons for the retrenchment have been and, hence, how to reconceptualise the main variables for welfare state studies. Neo-institutionalists argue that new types of policy coalitions have brought to the 'new politics of the welfare' (Pierson 2001) and to the various welfare state 'retrenchment scenarios' (Pierson 2001, Rhodes, Ferrera and Hemerijck 2000, Bonoli 2000, Palier and Martin 2008). Another strand of research argues that the main problem is a mismatch between the old structure of social expenditure and the new structure of social risks. By the end of the 20<sup>th</sup> century, the labour market and popular lifestyle patterns have undergone a significant transformation, but welfare regimes continue to protect the old social risks, such as disability, old age and sickness, which have been central to the redistributive period of the welfare state in 1960-80s. Emerging new social risks, such as single parenthood, youth poverty and insecure labour markets are arguably poorly covered by the contemporary welfare policies (Esping-Andersen 2002, Taylor-Gooby 2005, Armingeon and Bonoli 2006).

The reconceptualisation of the main variables for the welfare state analysis has become widely acknowledged with regard to the Western welfare states (Palier 2001, Pierson 2001, Hudson and Kühner 2009, Bannink and Hoogenboom 2007, Clarke 2008), but is only rarely used in studies on post-communist welfare states (Cerami and Vanhuysse 2009). The prevailing approach here is to apply the conventional welfare regime typology and to define the types of emerging welfare regimes (Aidukaite 2006, 2009; Cerami 2005, Leppik 2003, Potuček 2008, Orenstein 2008, Hacker 2009, Aspalter, Jinsoo, Sojeung 2009). However, most of the authors admit that CEE countries represent a mix of various regimes and do not fit well within the existing typology. As far as three Baltic countries are concerned, the dominant conclusion is that Estonia, Latvia and Lithuania embody features of both liberal and conservative welfare arrangements, although to a different extent (Aidukaite 2006, 2009; Cerami 2005, Potuček 2008, Aidukaite 2009). Somewhat interestingly, the policy outputs fit the liberal type of welfare, whereas the policy-making context is similar to the continental-conservative model. So, Estonia, Latvia and Lithuania implemented the three-pillar pension system faster and in a more radical manner than most of the Western European countries (Matthes et al. 2007). Similar determination can be found in fiscal and tax policies, as well as in privatisation reforms. In times of the 2008-2010 global economic crisis, the national governments of the Baltic States opted for tough cuts in welfare expenditures in order to keep the state budget as balanced as possible. Governance tools of this kind may suggest that three Baltic countries are performing retrenchment similar to the UK during the Thatcher government. Yet, the policy-making context is fundamentally different in these two cases. Baltic States have politically fragmented parliaments and majority coalition governments. Although labour market partners here are not as strong as in Continental Europe, they play an increasing role in setting social and tax policies. Targeted welfare budgets in the Baltic States are managed

by the tripartite social insurance funds, which is a typical feature of the conservative corporatist welfare regime. Some of the Bismarckian arrangements were applied for the first time not during the restoration of democracy, but already in the Soviet period. So occupational welfare, which is at the heart of the classical Bismarckian welfare state, was the very base of the Soviet social policy.

This path dependency with the communist era was one of the reasons why the right-wing politicians in Baltic States found the Bismarckian model too solidaristic and turned to the liberal welfare policies. The Continental European *Sozialstaat* was instead favoured by the left-wing political parties, who regard the Nordic social-democratic welfare model as too leftist. The only political forces that favoured the Scandinavian universal welfare system were the new democratic political parties of the Russian-speaking population. Considering the anti-Soviet and anti-Russian political atmosphere in the Baltic States in the early 1990s, this turned out to be an additional argument to avert the social-democratic model.

This mix of path dependency and path departure is one of the reasons why it is so difficult to define the welfare model of the Baltic countries. Aidukaite (2009) defines it as a distinct post-communist welfare regime, which represents a mix of neoliberal and Bismarckian features. Cerami and Vanhuysse (2009) and Aspalter et al. (2009) stress that multiple historical layers co-exist in the contemporary post-communist welfare regimes; some of them have their roots already in the pre-communist periods, when Central European countries and Russia were significantly influenced by the German and Austro-Hungarian Empire. Thus, features of the conservative-corporatist welfare arrangements may refer both to the pre-communist and to the communist period (Cerami 2008, Orenstein 2008, Cerami and Vanuysse 2009).

Yet, when studying perspectives of the post-communist welfare states, the question of defining the most appropriate welfare model is not of primary importance. The key issue is what impact different layers and principles have on welfare state adjustment to the contemporary social risks. Does this fuzziness make the meeting of the old and new social risks easier because lock-in effects are not so strong? Do some features have a stronger effect than others and what explains this variance?

Low social security expenditure in Estonia, Latvia and Lithuania suggests that their protective potential is weak, but it does not say much about their capacity to enhance labour market activity, which is regarded as the key for welfare state sustainability in the era of population ageing. Therefore, one cannot rely on cost-related variables only to estimate whether Baltic countries have a potential to build up a welfare model that works efficiently in the era of post-modernity. This paper argues that adaptation to the post-modern conditions can be regarded as successful if the stability of welfare spending is accompanied by expanding and flexible employment and by a stable or decreasing level of poverty. The next part of this paper will analyse empirically to what extent Estonia, Latvia and Lithuania are meeting these challenges.

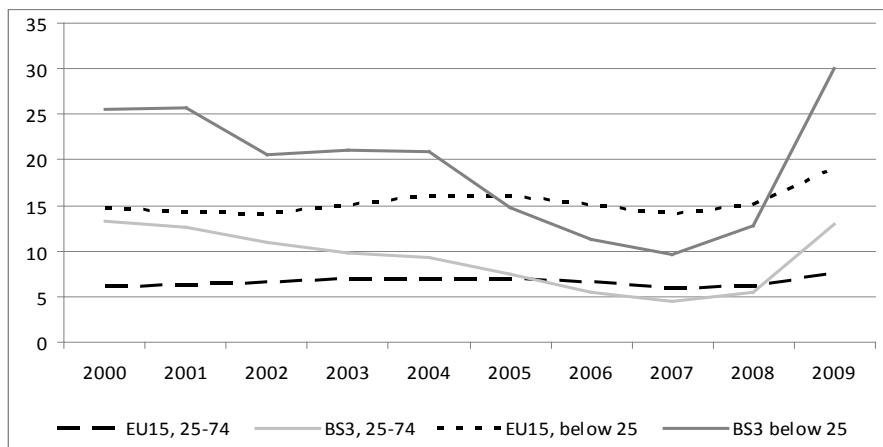
The study uses the Eurostat online database, which provides reliable statistics to compare main indicators of employment and poverty. The EU's Mutual Information System on Social Protection (MISSOC) tables are used to analyse family policy measures. Yet, when interpreting the results, some limitations of the data must be taken into account. Firstly, the data cover a relatively limited time span and, therefore, it is too early to conclude how systematic are the impacts of economic growth and downturn on employment that we observe in 2000-2009. Secondly, Eurostat does not provide data for in-depth analysis of labour market behaviour of specific age groups (for example, women aged 25-40), which decreases the possibilities to make robust conclusions about the impact of the parental benefits on labour market behaviour. And thirdly, national family policies still represent a huge variance in terms of arrangements and terminology that makes a reliable comparison of benefits complicated. Despite of these limitations, existing data allow to map some important aspects of the current state of the welfare state development in this highly dynamic European region.

## **Volatile labour markets, but rigid work patterns**

Population ageing urges welfare states to put more emphasis on the expansion of the labour force participation and several policy programs are designed for this purpose. However, these national or supranational policies interact with the increasingly globalising economies and with cultural traditions, which, to the contrary, are deeply national. These interwoven effects are one reason why welfare regimes become fuzzy and new patterns emerge that do not fit to the expected characteristics of the regime. The fuzziness of the regime is especially salient in societies that have experienced significant social changes over a relatively short period of time. The three Baltic States represent a good case in this aspect. The analysis below will investigate whether labour market participation corresponds to some 'ideal' world of welfare or whether the emergence of new patterns is evident. The analysis first focuses on the expansion of employment and then on the flexibility of work contracts.

Changes in the labour market have been extremely speedy in the post-communist countries. The collapse of the planned economy had a fundamental effect on the size and characteristics of the labour market. The employment rate never reached its peak level of the 1980s and the unemployment rate has been highly volatile, ranging from 3% to 19% in different years. When the first shock of market reforms was over, the Baltic economies started to grow fast. In contrast to the jobless growth in advanced post-industrial economies, here the employment trend went hand-in-hand with the economic change. After a short decline during the economic downturn of 1999-2001, the employment rate started to increase in all three countries. As a result, already by 2006 Estonia, Latvia and Lithuania performed above the EU average in all Lisbon benchmarks, except the total employment rate for Lithuania (COM 2007). However, soon regional markets became overheated and the impact of the world economic crisis of 2008-2010 was extremely severe for the Baltic economies. Economic growth was replaced by a sharp decline and a simultaneous increase in unemployment. In less than a year (from fall 2008 until spring 2009), the unemployment rate increased here by 10%, representing the sharpest growth in the EU.

Differently from the first period of high unemployment in 1999-2000, the crisis of 2009-2010 cannot be featured as structural unemployment. The risk of job loss is high in all employment sectors, in urban and rural areas, amongst white collars and blue collars. Yet, unemployment is somewhat higher amongst the youth and persons of the pre-pension age. In this respect, Baltic countries resemble the Anglo-American welfare model and differ from Western Europe. In the latter, youth unemployment has been a permanent problem for decades, whereas aged workers with a long employment career were better protected against job losses. In the Baltic States, these two categories are in an equally insecure position on the labour market – in periods of economic growth they can easily enter it, but in periods of economic downturn they tend to be fired first.



**Figure 2.** Unemployment trends among different age cohorts, %  
Source: Eurostat 2010

Another peculiarity of the Baltic countries concerns female employment patterns. European welfare regimes, especially the continental model, have been oriented towards the male full-time worker. Therefore, women's participation in the labour market has been typically lower and their unemployment rate higher. The situation in the Baltic countries is quite the opposite. Female employment in Estonia and Latvia is on the highest level in the EU, which is explained in the research literature by the Soviet heritage (Pascall and Manning 2000, Cerami 2008). Lithuania has a somewhat lower women's labour market participation, which Katus et al. (2007) attribute to the historical cultural and religious factors. Lithuania is the only Catholic country among Baltic States and on average Lithuanians hold more conservative views on the family and the division of gender roles. In addition to these path dependency arguments, two additional factors support female employment. First, women in Estonia, Latvia and Lithuania are better educated than men and several studies indicate the especially powerful effect that education level has on employability in CEE (Saar, Unt, Kogan, 2008; Cerami 2008). Second, according to a widespread opinion, women here also tend to accept less lucrative job offers which men reject. The gender pay gap, which in Estonia is the largest (28%) in the EU, implicitly refers to the relevance of the above-mentioned assumption.

Thus, one can see a mix of modern and post-modern features in the dynamics of Baltic labour markets. On the one hand, economic growth or decline is explicitly mirrored in the availability of jobs that has been typical for the era of modernity. The higher risk for young and aged workers to lose their job, and the high employability of women, on the other hand, are characteristics of the post-modern 'liquid labour' (Beck 2000). However, in post-communist countries high female employment can be associated with past traditions instead of manifesting the emergence of post-modernity. Therefore, it is necessary to explore more closely other labour market characteristics related to the post-modern conditions, such as the spread of part-time work and flexibility of work arrangements.

In the classical Western European welfare state, a full-time permanent work contract has been the norm; part-time and fixed-term contracts were labelled until 1990s as 'atypical' employment. With the arrival of post-modernity, it has been understood that flexibility of the labour market needs to be increased in order to facilitate overall employment and contribute to the welfare state sustainability. Mothers, the elderly and young people who were in a more difficult position for obtaining a full time job were considered as a target group of this policy.

The distribution of part-time work and temporary contracts varies widely within Western Europe. Bismarckian welfare regimes typically show a low level of part-time and temporary contracts, which is explained by the strength of trade unions and well-established labour laws (Ebbinghaus 2006, Clegg

2008). In Estonia, Latvia and Lithuania these factors were absent because a true industrial labour market, including a strong social dialogue, was non-existent in the Soviet period. Thus, full time jobs here could be less protected by the trade unions and one can expect a quick adjustment of the local labour markets to the post-modern flexibility demands. However, this did not happen. Part-time work and temporary employment are significantly less prevalent in the CEE compared to the EU15 (Gebel 2008). In the EU15, the share of part-time contracts shows a continuous increase since the 1990s, having reached 21,6% of the total employment by 2009. In the Baltic States, this figure is less than half of the European average.

The lower level of part-time employment in Estonia, Latvia and Lithuania can be attributed to various factors. First, high levels of part-time employment in Western Europe exist largely because of women often use this type of employment. This is not the case in the Baltic States. The share of part-time contracts in the total female employment is more than three times lower here than in the EU15 (Eurostat 2010). It is also noteworthy that the female part-time employment rate did not increase in Estonia, Latvia and Lithuania, neither during economic growth, nor during recession. These findings confront two previous assumptions that countries with a high female labour force participation will have also high part-time employment (Rosenfeld and Birkelund 1995); or alternatively, that in times of employment crises women are forced to transfer from full time to part-time employment (Kraus 2002). Thus, one can suggest that the main factors that determine part-time work in the post-communist Baltic States are related to the structure of the economy. Growth of the service economy (Esping-Andersen 2000, Hassel 2001) or high labour costs are seen as factors favourable to the expansion of flexible work forms. According to Eurostat, hourly labour costs in the Baltic States compose about one fifth of the EU15 level and, hence, are not yet pressuring employers towards greater labour flexibility.

In addition to these economic and historic-cultural factors, the flexibility of the labour market is affected by policy interventions. Interestingly, despite radical neoliberal reforms in many policy areas, the labour law remained untouched in the Baltic countries for a very long period (Eamets and Masso 2005, Gebel 2008). Therefore, basic features of the Soviet labour regulations, such as regarding permanent full-time employment as a norm, and strict rules for recruitment and termination of contracts, still shape contemporary industrial relations in the region. This state of affairs is reflected by the employment protection legislation (EPL) index<sup>1</sup>, which shows Latvia and Lithuania as having stricter regulations than the EU15, whereas Estonia stands at the Western European average. One dimension of the EPL index (collective dismissal) is in Estonia and Latvia significantly and in Lithuania slightly above the EU15 level (Gebel 2008). This suggests that permanent jobs are well protected in the Baltic States, which may be seen as a contradiction considering the low and decreasing union density. All three Baltic countries belong to the group of EU countries with the lowest density level, where less than 20% of employees are trade union members (COM 2009). One should also add that the counterpart in labour relations – the employers – is also poorly organised. In employers' organisation density, Estonia, Latvia and Lithuania also stand at the bottom amongst the EU countries (COM 2009). Yet, the weakness of unions and employers' organisations neither made Baltic labour markets more flexible, nor did it contribute to the institutionalisation of new actors advocating reforms. In this context, it is interesting to note that according to some recent studies on Bismarckian labour market policies, unions and employers' organisations have today become supporters of reforms instead of blocking them, as typically implied by the conventional approach (Clegg 2008).

So employment patterns reflect a mix of different features. The size of the labour market is changing in concordance with the economic cycles, as is typical to modernity. Also, employment patterns are rigid and full-time employment prevails both among men and women. Instead of emerging post-

1 Employment Protection Legislation (EPL) index – one of the frequently used measures of the strictness of industrial relations elaborated by the OECD. The index is calculated along 18 items in three areas: employment protection of regular workers against individual dismissal, requirements for collective dismissals, and regulation of temporary forms of employment.



modern liquid labour, one can find salience of conservative employment patterns rooted in the communist period. Next we will turn to the family policy to investigate whether its measures can be a starting point for the path departure in the development of post-communist labour markets. The focus will be on the incentives to reconcile family and work life, which aim to facilitate flexibility of life styles.

## Balancing family and work options

Contrary to the industrial relations, family policy in the Baltic countries has been fundamentally revised during the transition period. Two main arguments guided this policy change. First, public childcare was an important component of the Soviet occupational welfare. Thus, with the collapse of the planned economy the former kindergarten system also broke down. Most of the political parties saw public provision of childcare as something ‘communist’ and clearly preferred cash benefits as the main tool of family policy. Second, pronatalist thinking gained increasing influence in the transition period due to a significant population decline. Additionally, it fit well with the views of the nationally-minded conservative political forces.

**Table 1.** Family benefits in kind and in cash, EUR per inhabitant  
(at constant 2000 prices)

|                         | 2000  | 2002  | 2004  | 2006  |
|-------------------------|-------|-------|-------|-------|
| <b>Cash benefits</b>    |       |       |       |       |
| EST                     | 68,5  | 68,4  | 99,9  | 114,4 |
| LVA                     | 44,4  | 44,6  | 44    | 52,1  |
| LTU                     | 33,5  | 31,4  | 37,8  | 49,3  |
| EU15                    | 368,1 | 380   | 383,4 | 374,3 |
| <b>Benefits in kind</b> |       |       |       |       |
| EST                     | 4,7   | 5,7   | 3,8   | 5,1   |
| LVA                     | 9,7   | 11,2  | 10,0  | 11,0  |
| LTU                     | 14,2  | 16,0  | 21,9  | 26,6  |
| EU15                    | 127,2 | 140,3 | 151,3 | 162,8 |

Source: Eurostat 2009

Compared to the old social risks, such as the unemployment or seniority pensions, the family policy has been a financially favoured policy area in the Baltic States during the last decade. In 1996-2006, expenditure on family and children increased in Estonia and Lithuania significantly and somewhat in Latvia. Within the same period, pension expenditures declined significantly in Latvia and slightly in Lithuania; Estonia kept the level constant. Despite this national variation, all three Baltic trajectories differ from the trends in Western Europe. In the EU15, the share of pension expenditures is increasing and the portion of family policy is decreasing, while in the Baltic States the situation is opposite. As a result, in terms of the share of total national welfare budget, three Baltic countries spend proportionally more on family and children than other EU countries.

Arguably, a strong family policy is one of the factors that cause high women’s labour market activity. However, family policies in the Baltic countries focus on the measures aiming to enhance

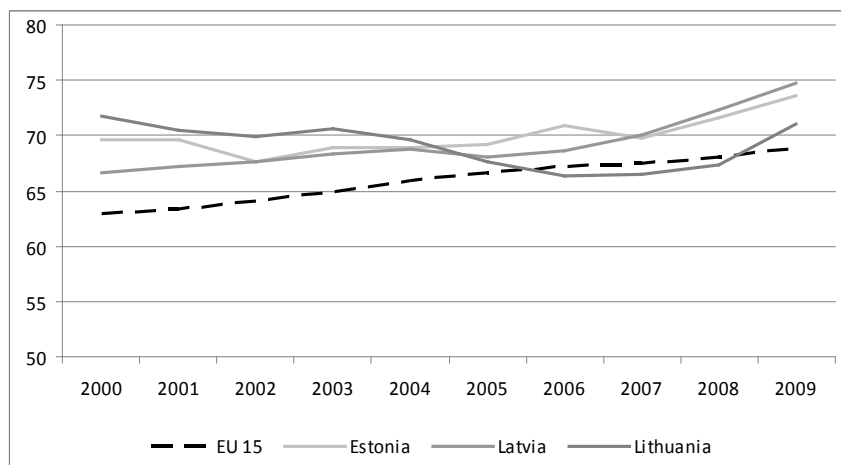
childbirths; therefore, one cannot expect a direct positive impact on the employment. Rather to the contrary, generous child benefits may decrease the mothers' motivation to enter the labour market. Estonia introduced a very generous earnings-related parental leave benefit in 2004, Lithuania followed with similar measures in 2008. On the other hand, despite of the collapse of the Soviet childcare system, the percentage of children in pre-school institutions is still high in the Baltic States. This creates an interesting mixed system, which combines features of conservative and socialist family policies. As table 2 shows, there is no explicit association between benefits in cash, benefits in kind and female labour market participation

**Table 2.** Family policy measures and female labour market activity

|           | Enrolment of 4-7 year-olds<br>in kindergarten (2007), % | Parental leave benefit,<br>days; replacement rate to<br>beneficiary's salary | Female labour force<br>participation rate (2008), %;<br>aged 25-49 |
|-----------|---|--|--|
| Estonia   | 94  | 575 days, 100%   | 83   |
| Latvia    | 88  | 112 days, 100%   | 86   |
| Lithuania | 77  | 365 days 100% ; next 365<br>days 85%   | 85   |

Data sources: Eurostat 2009, MISSOC 2009

Labour market behaviour is influenced not only by family policies. Taxation policy, which can create economic incentives for families to self-select into single-earner or dual earner household structure, also play an important role. Although post-communist Baltic States introduced social insurance in the Continental European manner, they did not apply the family-based approach in taxation. As a result, the male breadwinner model did not develop in the Baltic States and the two breadwinner family type that was common during the Soviet period remained dominant (Warnecke 2008). Yet, in the circumstances of a liberal market economy, the decision whether both parents should stay in the labour market is guided by the economic needs instead of ideological slogans. In times of economic prosperity, it is more likely that one parent will withdraw from the labour market to take care of children; in times of high unemployment risk and decreasing pay levels, two breadwinners may be necessary. The trend in female labour market participation suggests that this is exactly the case in Baltic countries during the first decade of 21<sup>st</sup> century. In Estonia, the female labour force participation increases sharply since 2007 when the economic recession begins. In Lithuania, recession starts somewhat later and the increase in female labour force participation is also postponed until 2008. It is worth stressing that female labour force supply increases despite of the high unemployment and generous parental leave schemes introduced in 2004 in Estonia and in 2008 in Lithuania.



**Figure 3.** Female labour force participation, %

Source: Eurostat 2010

In sum, despite remarkable resources allocated to the family policies, path dependency with the Soviet time has a strong effect on making choices between family and work. Some developments of the transition period even reinforced this path dependency instead of creating premises for path departure. For example, when the childcare system started to develop again, the majority of childcare offered was in the form of full-day care. This corresponds to the two-breadwinner family pattern, which is supported also by the current taxation policy. These choices are mediated by the economic conditions that due to the residual liberal welfare provision play a crucial role in securing the households' material well-being.

## Employment as a tool for poverty reduction

A modest living standard has remained a significant problem for most of the post-communist countries. Five years after joining the EU, the living standard in the Baltic countries is still at only about half of the EU15 average and there has not been any remarkable progress in this. However, income disparities have not increased substantially in the course of market oriented reforms. In Estonia, the share of population at risk of poverty has declined continuously since 2004 and in 2009 was 17,6%; Latvia and Lithuania have been less successful. In these countries, the poverty trend has been volatile and stands now at 21,4% in Lithuania and 25,9% in Latvia. The relative success of Estonia cannot be explained by the welfare state intervention because social transfers decrease the at risk of poverty rate here to a lesser extent than in Lithuania. Lithuania has more means-tested benefits than other Baltic countries (Aidukaite 2009), which contributes to the higher effect of social transfers on poverty reduction. Generally the monetary well-being in Estonia, Latvia and Lithuania is less dependent on the welfare state than it is typically in the Western European countries.

Considering this situation, it can be assumed that the main roots of well-being are located in the labour market. Although Estonia and Lithuania stand in terms of the 'working poor' at the same level with the EU15 (8%), various population categories have different gains from employment. In Estonia, employed women are at a slightly higher (9%) poverty risk than men (6%), but in Latvia and Lithuania no gender difference is apparent. The effect of educational level on poverty reduction amongst employed population is also similar between the Baltic countries and Western Europe. Like in the EU15, in the Baltic countries less than 4% of employed persons with university education (ISCED 5-6) face the

risk of poverty. Yet, there are remarkable differences between the Baltic countries amongst workers with lower and upper secondary education (ISCED 0-2). The positive effect of education on monetary well-being is highest in Latvia and lowest in Estonia. The varying effect of employment on poverty reduction receives additional corroboration when full-time and part-time workers are compared. The latter face the risk of poverty more often than the former. Unlike gender and educational factors, the poverty risk for part-time workers is more than two times higher than in the Baltic countries than in the EU15. These findings provide a further explanation for the expansion of female employment and the non-expansion of part-time work in the Baltic countries. For women, to be employed full-time entails a lower probability of poverty, whereas for part-time workers the situation has not improved much.

**Table 3.** In-work at risk of poverty by various population categories (2008), %

|           | ISCED 5-6 | female | ISCED0-2 | part-time work |
|-----------|-----------|--------|----------|----------------|
| Estonia   | 3,6       | 8,6    | 10,7     | 12,8           |
| Latvia    | 3,9       | 11,4   | 18,1     | 24,6           |
| Lithuania | 3,3       | 9,5    | 19       | 22,3           |
| EU15      | 3,7       | 7,6    | 14,8     | 11,1           |

Source: Eurostat 2010

Summing up the poverty issue, one can argue that Estonia, Latvia and Lithuania demonstrate relatively good performance in traditional welfare state function of keeping the poverty level under control. For the people of working age, the main means of escaping poverty is a full-time job, which, again, is true for all three countries. In meeting new social risks related to the flexible work forms or poor educational level, the Baltic States' performance is weaker; there is also a remarkable variance between Estonia, Latvia and Lithuania.

## Conclusion

Baltic countries represent interesting, but controversial material for the welfare state research, because various historic welfare regime layers and liberal and conservative-corporatist principles coexist here. Radical neoliberal reforms carried out during the transition period were assumed to facilitate path departure from the former rigid employment structure and to build premises for the accommodation of new social risks. This article assessed the basis of current labour market statistics to find whether this assumption has held true.

Theoretically, the aim was to analyse how post-communist societies relate to the modern and post-modern types of welfare regimes and whether prerequisites for the adjustment to the liquid modernity are evident. The results are presented in the table below, which shows that contemporary post-communist societies represent a mix of different features. However, dimensions related to the classical, i.e. modern welfare state are more pronounced and some areas, which are important for the efficient adjustment to the post-modern conditions, remain stagnant. Thus, the fuzziness of the post-communist welfare regimes does not seem to be an advantage in adjusting to the rapidly changing social and economic conditions.

**Table 4.** Key dimensions of ideal types of the welfare regimes

|  | Modern welfare state   | Post-modern welfare state   | Post-communist welfare state  |
|--|--|---|---|
| Labour market features                     | Full-time jobs prevail;<br><br>Male labour force participation higher;<br><br>Solid labour regulations | Variety of work forms;<br><br>No gender difference in labour force participation<br><br>Flexible regulation of labour | Full time jobs prevail;<br><br>No gender difference in labour force participation<br><br>Solid labour regulations |
| Core anti-poverty policies                 | Protection of old risks via income replacement   | Protection of new risks via social investments  | Protection of old risks at the minimum level  |
| Key instrument to govern the welfare state | Income redistribution  | High employability of population  | Mixture of both   |

Source: Authors

Empirically the article aimed to test how successful are the three post-communist Baltic countries in meeting of two different welfare state functions – to reduce poverty and to enhance employment. The analysis revealed that Estonia, Latvia and Lithuania continue to focus on protecting against the old social risks by combining neoliberal and post-communist principles. The positive outcome of this policy is a relatively good fiscal balance of the public budgets and a stable level of poverty risk in general. Yet, the poverty risk is higher amongst youth, workers with poor education and part-time contracts. Poor performance in meeting new social risks poses a greater challenge for the post-communist welfare states than their lag in terms of gross welfare expenditure.

In summary, one can conclude that radical neoliberal reforms did not break the path. A high labour market participation level, including that of women, is in the Baltic States associated with the corporatist traditions rooted in the communist time, whereas the residual welfare state adds additional pressure to look for a full time job. This combination of different factors amplifies the family–work divide, which is a typical feature of modern societies. The revival of these backward trends is happening largely because Baltic political elites have not yet understood the necessity to replace the old paradigm of linear development by a holistic strategy of adjustment to the post-modern liquidity. National governments attempt just to push the old things harder, which is not sufficient either to catch up with the Western welfare regimes or to build an efficient ‘social investment state’ (Giddens 1998).

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